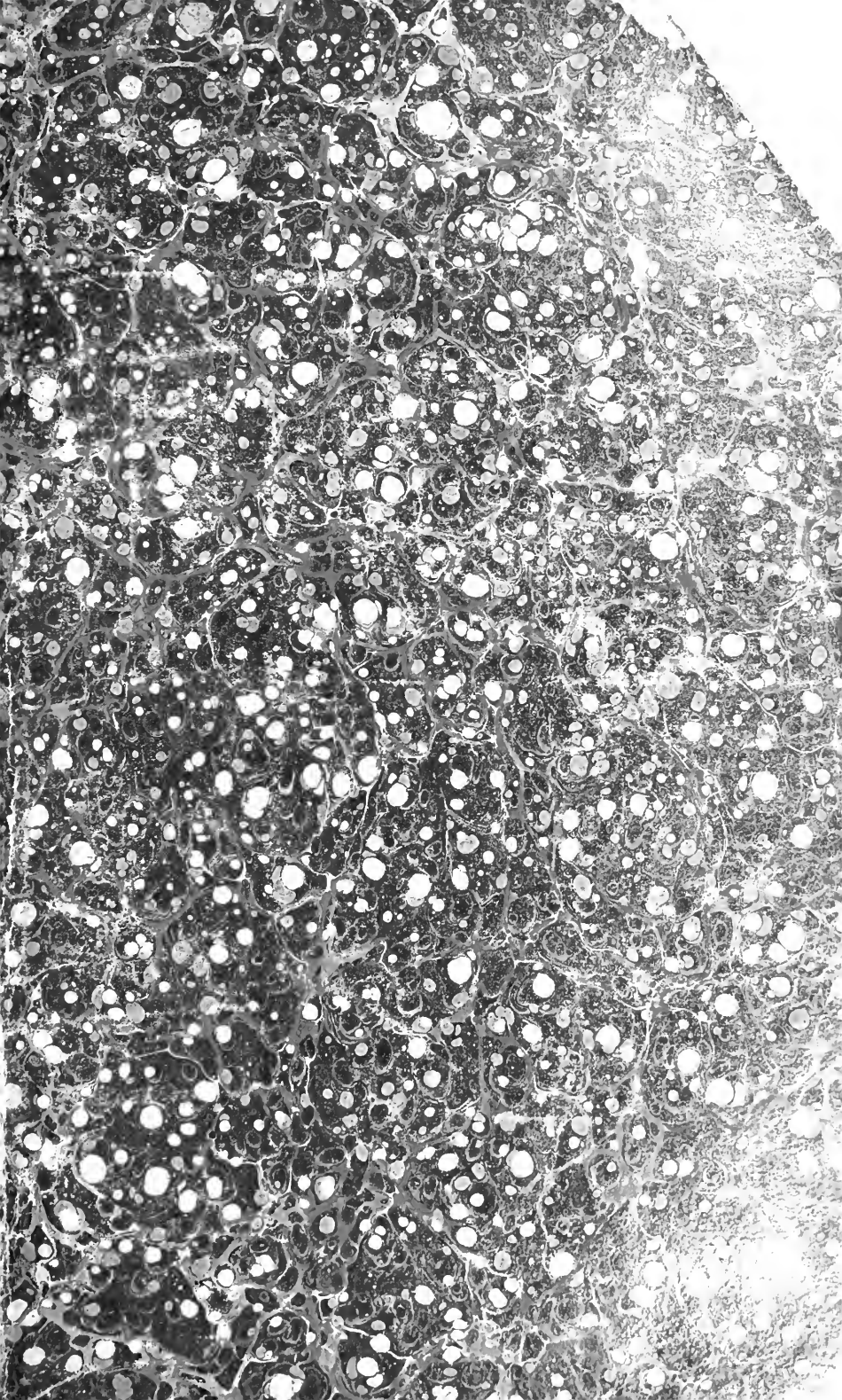


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NATIONAL BANKS:
WHAT SHALL BE SUBSTITUTED FOR THEM?
AN ADDRESS
ON
CURRENCY REFORM
BY
THOMAS KINSELLA,

*Delivered on Invitation, before a Meeting of Citizens, held in Jefferson Hall,
Brooklyn, April 10, 1882.*

BROOKLYN:
EAGLE PRINT, 34, 36 & 38 FULTON ST.
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WHAT SHALL BE SUBSTITUTED FOR THEM?

AN ADDRESS DELIVERED BY THOMAS KINSELLA, IN JEFFERSON
HALL, BROOKLYN, APRIL 10, 1881.

MR. CHAIRMAN AND FELLOW CITIZENS:

I have been invited to address you this evening on what your Committee has designated the "Currency Issue." In one way or another the currency question has been an issue since the foundation of political parties under our government; around it have been waged the fiercest conflicts in our politics; all that may be accepted as agreed upon at this moment concerning it is, that it is not settled, for on all sides a change of one kind or another is demanded. There were, for instance, at our last Presidential election between three and four hundred thousand of our voting population who made it plain that this question is more important, in their opinion, than any other then before the country, and so, leaving all other questions to be settled between the two established parties, in their antagonism to both, they "stood up to be counted," willing to take no practical part in a Presidential contest, and to record their votes merely as a protest against what they regard as infidelity to the interest of the plain men of the country by the two great parties then and now contending on about even terms for supremacy. In my judgment, that man is not a statesman, no matter how high his place is in popular esteem or in the public councils, who is disposed to dismiss a protest like this with indifference, or

as undeserving of consideration. It is not disposed of by stigmatizing those who join in it as Greenbackers, or as knaves or fools. If anything is clear, it is that hundreds of thousands of American voters cannot be made to accept an imaginary grievance for a real one. A large body of voters may be mistaken as to the cause of an injustice they may complain of, but we may be sure they will not unite in any great numbers in presenting a grievance when there is no grievance. That the discussion of the currency question by the people is timely is made clear in many other ways. It is at this moment before both Houses of Congress. It was left unsettled when the last Congress adjourned, and we all remember what followed when that Congress attempted even to modify our currency policy in a very slight degree and in only one particular. Although the representatives of the people and of the States in Congress assembled gave it as their mature and deliberate judgment that the financial and currency concerns of our government should be conducted in a way agreed on, a numerically small body of men invoked Executive action against Congress, and made it plain to all men that if it was withheld they had it within their power to bring on a financial crisis, the effects of which they had the hardihood to illustrate in Wall street, leaving it to a timid President to say whether that which was begun in the financial centre of the country should be extended or not, and the terms they demanded and succeeded in obtaining were, that the legislative branch of the government should be rendered powerless for the time being.

I assume I have been invited to address you to-night not so much because I am known to be an opponent of our existing currency system, but rather for the reason that I am an advocate of a system which I think can take its place with great advantage to every legitimate interest of our country. While I antagonise the existing currency policy of our government, I am not in accord at all with, perhaps, its most direct and most earnest opponents. I am opposed to bank note currency, but I am still more opposed to

what is understood to be the policy of the Greenback party, so called. I am against what I regard to be a usurpation of a function of government by the banks, in the power exercised by them in issuing currency, and I will, nevertheless, go as far as any citizen in support of laws designed to conserve, protect and promote the interest of corporations engaged in the business of banking, for I regard that business as most beneficial to the country as a whole, and to every community in which it is carried on.

I will not take up your time by entering into the consideration of what constitutes money; of its origin, of its use, of the distinction made between money and currency; of the ability of the government to make money out of paper, or of the inability of any power except the government to make money out of gold, or out of anything else. I leave those to fight their battle out who believe, on the one hand, that a government like ours has in its *fiat* alone a wealth greater than all the gold of either Indias, or those who, on the other hand, believe that the primeval curse is augmented and embittered by the tolerance of paper currency in any form as money, because they hold it to be a contrivance for robbing the laborer of his earnings; for enabling those who do not labor to earn their living in the sweat of other men's brows. A consideration of the powers of our government under the fundamental law, is also alien to my purpose to-night. I take the financial situation of the Republic, as respects its currency, as I find it, and I will invite your attention to the practical questions: Wherein is it defective, or dangerous? How can it be improved upon?

It so happens that on the question of the currency a correspondence was opened with me very shortly before I received your invitation to present before you my views on this subject. This was done in a note addressed to me by a member of Congress from this State—a gentleman of high standing in the financial and business world, and whose name is frequently mentioned of late in connection with the very highest place at the disposal of the people of the greatest State of the Union. I will make this note a text for

much of what I shall have to say to-night. It reads as follows :

HOUSE OF REPRESENTATIVES, }
Washington, D. C., March 16, 1882. }

My Dear Sir : I have asked more than a hundred Democrats in Washington this question of late : "What can we substitute for the National Banks ?" without receiving any satisfactory answer. Knowing how well informed you are on the general subject, I will be glad to have your views.

Very truly yours,

HON. THOS. KINSELLA, Brooklyn, N. Y.

Now, this is an entirely proper question, and a member of Congress who upholds the national banking system has a right to expect an answer to it from those who are opposed to the system. There is, however, a significance in the query, for when a man asks you what are you going to substitute for what he upholds, his faith in his side is not strong. I take it for granted that our national banking system in its present form is doomed, and that the pressing question is not of continuing it, but of providing a substitute for so much of it as must be discarded.* But an attempt will be made, and is being made, to perpetuate it, and before an honest, safe and permanent system is substituted for it great financial and business trouble may ensue.

The first and greatest objection to the existing national banking system is in this : It confers upon private corporations, already in excess of two thousand, the right to issue their notes—the evidence of their indebtedness—as currency to be used by the people. I hold that the issuing of currency is a function of the government, and that whatever the currency of this country is, or is to be, the government

* "It is very obvious that the continued reduction of the public debt is fast removing the foundation of the National Banking Currency, and that the system itself, thus losing its characteristic support, is *approaching dissolution*. The advancing price of government bonds, consequent upon their gradual diminution in volume, and strengthened by a growing demand for the investment of trust funds of every character, has already made the service of issuing currency profitless to the banks weighed down as they are with heavy burdens of special taxation. With the certain progress of this reduction and absorption of bonds, it is evident that *the existence of the present system of banking cannot be long protracted*, and that very soon some substantial changes in the basis of our national currency system will be inevitable"—GEORGE S. COE, *President of the American National Bankers Association, before Convention of Bankers at Niagara Falls, August 11, 1881.*

should issue it, and issue all of it. It has been said of old, "Let me make the ballads of the people, and I do not care who make their laws." With a hundred fold greater force it might be said: Give me the power to provide the currency used by a people, and I will determine not only who shall make their laws, but what the laws shall be. Nay, we might go still further: Give me the power to provide a people with their currency, and it is only a question of time when I shall own the property of the country, and dictate, as no mere arbitrary ruler ever can, how I shall distribute and divide the wealth of every kind I do not care to possess. In the issue raised by the national banks against Congress on the funding bill a year ago, the bankers were enabled within two weeks to advance the value of money in Wall street to one per cent. a day. A continuance of the currency scarcity the banks created, by merely threatening to withdraw a fraction of the portion of it they are permitted to supply, if persisted in, or if the government had not yielded, would have reduced the value of every other evidence of real wealth, and of real property itself, fifty per cent. within a month—and this, too, in the face of the fact that the ultimate power to issue currency is still with Congress and the people. But it is said the banks were justified in their resistance to the funding bill, some say on the ground that Congress insisted upon compelling them to deposit three per cent. bonds as security for three per cent. interest; the face value of the bond, and ninety per cent. in currency without interest, beside, and others, because Congress had no right to say that the banks must return the notes given to them on the security of their bonds, when they desired to regain possession of the bonds. But whatever may be the excuse, or the justification, no body of men should exist in this country with power to determine when they will be justified in retaliating upon the representatives of the people, to the injury and ruin of the prosperity of the people themselves. Does there exist a disinterested man who disagrees with me on this point?

I am opposed to the issuance of currency by the

banks, because the banks, in exercising this power, look to their own interest alone. This is natural. I do not say that is is blameworthy. But since the currency and credit of a nation are as its lifeblood, who shall say that its volume or its purity should be entrusted to a small body of the people, who can always conserve their immediate and private interests at the general cost? I am opposed to giving the power to issue currency to the banks, or to permit them to retain it, because the people and the government are paying the banks a large amount as an annual bonus for furnishing a currency which has its chief security in the fact that it is indorsed by the government. The government of the United States is probably the only indorser of a note ever known who has paid for the privilege of becoming an indorser—giving security that somebody else would redeem a note which that somebody was allowed to profit by. We will say that, at this moment, the National Banks have three hundred and forty million dollars of their notes in circulation. Should the government issue its own notes, in place of the bank notes, of which it is the indorser, the government would save the interest on three hundred and forty millions of bonds, now payable at its option, and by this operation alone the people would save over eleven million dollars per annum. In this way the interest bearing debt of the United States could be reduced at once to a little in excess of twelve hundred millions, and the interest account could be reduced by eleven million dollars per annum. But the saving effected in this way would be but eleven million dollars a year. Eleven million dollars per annum would pay the interest on an amount of money sufficient to build a railroad from New York to San Francisco, and to make a highway free to the people across the continent at the cost of maintaining it. It would pay the interest on a sum sufficient to build levees on the Mississippi from Cairo to the Gulf of Mexico, and protect the boundless and prolific region almost annually submerged and devastated by the overflow of that great water-way.

I am opposed to giving to the banks the power to issue

currency, because it impairs, interferes with, and tends to destroy the sovereign power yielded up by the States, and intrusted to the Federal Government alone—the power “to coin money and to regulate the value thereof.” It is accepted as a financial axiom that every paper dollar issued will drive out, or keep out of the country a coin dollar, and if paper should be issued to the amount of the coin that would naturally circulate in the absence of paper, the paper will drive out all the coin. It follows that if there is no use for coin money in the United States, none will be coined for use here. If nothing stood in the way of the banks, and if they alone should have the right to supply the people with currency—and this is contended for by many—the right to coin money and to regulate the value thereof might as well be transferred to the banks, for it would not exist in the government. I agree to the proposition that either the government or the banks should supply all the paper currency used in this country. Our late representative in Congress, Mr. Chittenden, holding to the opinion that the banks should supply all the paper currency, favored the immediate retirement of the legal tender, or government note, circulation, and, impatient of the tardiness of the government in carrying out what he conceives ought to be the law of the land, with characteristic impetuosity and generosity offered to give five thousand dollars to make a case, in order to try it before the Supreme Court, and to the end that the power of Congress to keep the legal tenders in circulation should be authoritatively denied. If Mr. Chittenden could have made his case, and brought it to what he would regard as a successful issue at once, three hundred and forty million dollars of greenbacks now in circulation would have been withdrawn, and for a non-interest bearing debt of this amount an interest bearing debt would have had to be substituted. This would be done at a cost of about \$12,000,000 a year to the people, and Mr. Chittenden would have been willing to pay five thousand dollars out of his own pocket for the doing of it. The national banks, in this event, could at once, at

their option, put nearly seven hundred millions of dollars of their notes in circulation, at a cost to the people, for their then total paper currency, of, say, twenty-four million dollars per annum. I, too, believe in withdrawing the greenbacks, and substituting government treasury notes for them, redeemable in coin on demand; and I believe in substituting the same kind of notes for the national bank notes now out. In this way nearly seven hundred millions of paper currency would be provided for the people, and it would cost them nothing, save the loss of interest on the coin, held in reserve, in order to keep the paper currency at its par value. The government coin reserve need not, in my opinion, be any more than it is at present; for, in fact, the government now undertakes to keep at their face value in specie, not only the greenbacks, but the bank notes as well; for the banks by redeeming their notes in greenbacks—as by law allowed—and by calling on the government to redeem its greenbacks in coin, can deplete the United States treasury of every coin dollar it holds before the banks would be compelled to pay out a coin dollar for redemption purposes.

I am opposed to the national banking system, in its present form, because those engaged in it have an interest in the maintenance of a large public debt, for the reason, if there were no national debt, the banks would not have any government bonds to bank upon. The system cannot survive the hour every patriotic heart will welcome with grateful emotion—the hour which will see the Republic without a dollar of indebtedness which it cannot pay upon demand. The existence of a small but powerful body of men in any country with an interest distinct from that of the great body of their countrymen, is a menace and a danger. Those who profit by the existence of a national debt will be disposed to look with complacency on a public calamity which would create a debt, maintain, or enlarge it. They will not regard with any great disfavor public prodigality, extravagance or corruption which might render the payment of the existing debt impossible. So it was that one great national

banker, looking at the government's financial condition from his point of view, declared a national debt to be a national blessing; but the plain and patriotic men of the country regarded the sentiment as that of a dastard, and submitted with a patience sublime in its strength and endurance to the continuance of war taxes during twenty years of peace in order to get rid of the national debt, by honestly paying it. And as the announcement is made that million after million of it has been paid, a government by the people increases in weight, and strength, and dignity, and influence among men. I am opposed to our present national banking system for the reason that the banks will absorb all the currency issuing power to themselves, if we do not end the power of the banks to issue currency altogether. In this event the government and the people would be largely subject to their dictation. The government could shake it off, to be sure, but in the doing of it great financial and business distress would be inevitable. To-day our banking system has its chief security in the fact that the bank managers tell us we must not interfere with them, because disaster will certainly follow. Let their power be augmented, and the people would be disposed to suffer great evils at their hands rather than face the acute suffering which would be occasioned in getting rid of them. In Congress, a week ago, a Democratic banker warned the country that if that body did not yield to the demand of the banks for a renewal of their charters, a financial panic would be inevitable. Give them the power they are aiming at, and they may ask, when we have any grievance to complain of at their hands, with a force which would make Tweed's insolent query a mere joke, "What are you going to do about it?" Men will endure great suffering when, in order to end it, they must accept, temporarily, pain still greater. Every man who has ever had a toothache can give an illustration of my meaning from his own experience. Banks which are allowed to issue currency without limit, deprive the country tolerating them of its fair distributive share of the coin money of the world. When a country in this con-

dition is confronted by misfortune, in the shape of domestic revolt against its authority, or of foreign aggression upon its rights, it is not in a financial position to meet either the domestic insurgent or the foreign foe. This was well illustrated in our own case in 1861, when the government was confronted by the revolt of the Southern States against its authority. We were dependent for our currency on the State banks. Coin fled on the first sign of real danger, and there was very little of it in the hands of the people. The banks went under, and were not able to redeem their notes. The government tried in vain to borrow a hundred millions in coin in the early days of 1861, and it was not to be had. It could not accept repudiated bank notes. It had to issue greenbacks—to furnish the country with a currency, and to borrow it at exorbitant rates after it had issued it. To all appearance, France was saved from ruin, because its government was enabled to borrow from its own people, in small sums, the real money which constituted the currency of that country.* Make it profitable and safe for the banks to double their note circulation, and the notes will drive out, or keep out of this country three hundred and forty millions of dollars in coin. End now, and for good all, the issuing of paper beyond the amount now in circulation, except as against coin, dollar for dollar, and within the lifetime of men now living there will be seven hundred millions of coin in circulation, or in the vaults of the government, in addition to the present volume of paper currency. Every dollar issued by the banks, or by the government, except as against coin, will force a coin dollar out of the country or keep one out.

Let us now consider three or four, presumably, unanswerable propositions urged in favor of the banks—which are

*Adam Smith, in his "Wealth of Nations," says:

"A prince anxious to maintain his dominions at all times in the state in which he can most easily defend them, ought, upon this account, to guard not only against the excessive multiplication of paper money, which ruins the very banks which issue it, but even against that multiplication of it, which enables them to fill the greater part of the circulation of the country with it."

incessantly reiterated by the bankers, their spokesmen, and, especially, by those newspapers, which are owned and conducted, almost without disguise, in the interest of one or other of the half-dozen great capitalists whose names have become to be so familiar to us.

First—It is said that the national banks are vastly better than the old State banks, which they took the place of. This point has no force except as against those who favor the overthrow of the national bank system, in order to return to the State banks. I am opposed to the national banks for the same reason that I would oppose a return to the old system. I am opposed to the issuing of currency by all banking corporations, whether chartered under State authority or under Federal authority. Each State voluntarily surrendered to the Federal government its right, as a sovereign, to coin money, and it surrendered, at the same time and for the same reason, its right to issue notes, to be used as currency, or to “emit bills of credit,” as the phrase runs. I believe the creation of State banks, with power to issue currency, was in violation of the spirit of the Federal compact. I know that the creation of banks of issue by the Federal government is against the letter and spirit of the Federal Constitution. I know it, because the Constitution says so, and the men who created it left their written testimony to this effect.

Second—It is said that the national bank notes are, at all events, safe, and that, being safe, they pass current in every part of the country at their face value. The national bank notes are as good as their indorser is, and their indorser is the government of the United States. Your note or mine may not be negotiable for ten dollars; but if William H. Vanderbilt puts his name on the back of it, the note is “as good as Vanderbilt.” The national bank note is, perhaps, as good as the government note, but it certainly is no better. But what would be thought of a man who should pay for the privilege of indorsing another man’s note? He would stand a chance of being sent to a lunatic

asylum. Well, the government indorses the national bank note, gives it to the bank for nothing, and pays the bank interest on the bond which it deposits to secure the note—the bond itself being the government's promise to pay in a certain form and on stipulated terms.

Third—It is held by the advocates of the national banks that the banks not only supply a safe currency, but that their currency is regulated by what is termed the wants of trade. Of all the claims made for the banks this is the most absurd. I cannot conceive how any national banker, with the least sense of humor, can keep his face straight when this claim is made for him. Banks are managed in the interest of their stockholders, when they are managed honestly. They regulate their currency in the interest of the bank, and not in the interest of anybody else. A bank manager is commonly too busy with his own business to bother himself with that of other people. A day or two ago I cut the following item out of one of the *Eagle's* newspaper exchanges—the *Philadelphia Record*, I think :

“ A short time since the Philadelphia National Bank withdrew \$400,000 of its circulation. The reason for this, as explained by President Comegys, was, that bonds to the amount named had matured, and as they had no others to replace them with, it was determined to settle that much of the circulation. Mr. Comegys said this step and the entire cancellation of circulation by some other banks, notably the Western National, did not show that trade was in any way affected. The concerns prefer to do a general banking business, and hold that their circulation is no material benefit to them. The retirement of the legal tenders does not affect the volume of currency to any appreciable extent, because of the large production of gold and silver, so no apprehension need be felt in any quarter.”

Here, you see, the Philadelphia bank is not troubling itself at all about “the wants of trade.” It thinks it more profitable to sell its bonds than to keep them and issue circulation upon them. The Western National also withdraws its circulation, and the bank president takes occasion to add that there is “no reduction in the volume of trade” at all. The issuing of circulation, the banker thinks, is of no material benefit to him, and so he leaves trade, other than

the trade of banking, to take care of itself. Within recent years money has frequently been scarce in Wall street. The large and conservative bank of that city, known as the "Chemical," has no circulation. Did anybody ever think when money was scarce of calling upon the managers of the Chemical bank to provide the increased circulation needed "by the wants of trade?" The two great banks of New York—the North American and the Exchange—have but comparatively few notes in circulation, and the conductors of these banks justly conceive that the management of their banks is their business. People in other trades or callings, are at liberty to attend to theirs. I live in South Brooklyn; suppose I and four or five of my neighbors should think it desirable to establish a bank in that section of the city. We put up a capital between us of one hundred thousand dollars to bank upon. We are divided in opinion as to whether it is desirable to organize our bank under the national bank act, or under the State law. We are not agreed either as to whether we should issue notes, or be content to do a banking business. We are not troubled at all by the wants of trade in the matter of the volume of the currency. We might, finally, decide to employ our capital of \$100,000, in buying "Windom" bonds, which now sell at about their face value. We take, or send, these bonds to Washington. The government finds a vault for their safe custody, pays the interest on the bonds as due, and hands over to us \$90,000 in currency. The currency when paid out by our bank does not remain in Brooklyn for a week. Ninety thousand dollars is added to the volume of the currency. The wants of trade, in its relation to the currency, was never once mentioned in our deliberations. I now quote from the report of the Treasurer of the United States. On page 333 of his report for 1880, he says: "Instead of the volume of the circulation "being regulated by the business needs of the country, it "is governed by the price of United States bonds." If he had said it is governed by the interests of the banks, as determined by those who control them, he would have told

the exact truth, and the whole truth.* On the corner of Montague street is located the Mechanics' Bank, one of our largest and most profitable banks. It issues no notes. Opposite to it, on Fulton street, is the National City Bank, also rich and profitable, and it has about \$300,000 of its notes outstanding. The managers of both banks determine their conduct by the interests of their stockholders. Neither bank concerns itself with the wants of trade.

The last reason to which I shall refer, urged in defence of the existing national banking system, may be held to be of a sentimental kind. The sentiment is stale, to be sure, but it was turned to good account in its day. It is said the banks are opposed by men who will never forgive them for the aid they rendered the government in putting down the Southern rebellion. I remember during the early days of the late war—about the time a great many supposed that it would be something between a picnic and a base ball match—being told a story like this: A thrifty patriot approached a brother Democrat and said to him: "Our folks are making fools of themselves about this war business. Let us get in and run it. There is a heap of money in it, and the Republicans are getting all of it; let us go in and get our share, and if any man ventures to find fault with the way we get it, knock him down, and call him a traitor." The rebel who should kill an average national bank president for his services during the war in aiding the government, would commit murder without the slightest shadow of justification, except he found it in his own ignorance. The suppression of the Southern rebellion cost the national government about five thousand millions of dollars. Of this sum the national banks contributed, in the purchase of government bonds, ninety-two millions up to the date of

* "In several instances banks have repeated the operation of reducing and increasing their circulation several times within a brief period, taking up their bonds and selling them, it would appear, whenever the premium constituted a sufficient inducement, and increasing their circulation again whenever bonds could be bought at better rates, the United States all the while redeeming their notes at its own expense, or that of the other banks, and issuing others, also at its own expense, whenever called upon by them.—*Official report of JAS. GILFILLAN, Treasurer of the United States, 1880*

Lee's surrender. For this loan the banks received six and seven per cent. interest. They purchased the bonds at their face value in currency of about half its face value. The interest was paid in gold; the bonds were paid in gold, or its equivalent, when they became due. In addition, the banks received, as I estimate it, about eighty million dollars in currency. This currency the banks loaned to the people at six and seven, and eight and ten per cent. interest, according to the point of the bank's location. Every dollar thus issued depreciated the purchasing power of the greenback issued by the government, and depreciated the value of the government's credit. If it were said that the national banks rendered no assistance whatever to the government during the war for the rebellion, very nearly the exact truth would be stated. What did the banks do after the war, and after the authority of the United States had been restored over every foot of the Republic? The government had four hundred millions of greenbacks outstanding, and they were still greatly depreciated. In order to bring them to their par value, the government gradually withdrew its notes so as to contract the volume of the currency. Forty million dollars in greenbacks were withdrawn. At the very time the government was curtailing its currency, the banks began to inflate that they were given the power to issue. By 1873, the banks had issued notes on a capital of \$488,000,000. Through this inflation of the currency the panic of 1873 was brought about—specie payment was deferred, and in the attempt to restore it tens of thousands of honest, enterprising, unoffending business men were sent broken-hearted to untimely graves. The sentimental defence of the banks is the most fraudulent of any. It was formulated by knaves and is circulated by fools.

And now we reach the practical question: Supposing the reasons I have given for opposition to our existing currency system are all conceded, what do you propose to present as a substitute for it? Can the government of the United States provide itself, at this time, with a better

currency system than it has? Or, recurring to the question put to me by my Congressional friend, from whom I have quoted: "What can we substitute for the national banks?" It seems to me there have been an amazing number of events, brought about not at all by man's designing, which have placed our government, at this time, in a position to furnish our people with the best currency in the world; with a system that would be honest, safe and permanent; which would not depend for its stability on the misfortunes or mishaps of the Republic, but which would grow with its growth and strengthen with its strength; while by increasing, conserving and guarding the prosperity of the people, make "government by the people and for the people" more than ever the hope and aspiration of lovers of their kind the world over.

If I have made myself at all clear, you have already reached the conclusion that I am not an opponent of banks. So long as corporate banks confine themselves to the business of banking, they are deserving of the greatest favor from the people, and of the most generous consideration from the government. I go as far as to say that the taxation now imposed by the general government on the banks, or, rather, on that branch of their business which is real banking, is excessive.* There is no justification for it, except that the government, in the taxes it imposes on bank capital, and especially on bank deposits, attempts to reimburse itself for the surrender of the power it has conceded to the banks to issue notes. I am inclined to the opinion that the laws regulating the corporate banking business of this country should be national, and I would make the national laws so favorable to the banks that the banks would prefer to be under national rather than State control.

* "A bank is an institution organized to loan money, receive deposits, and buy and sell exchanges. The issue of its notes, or promises to pay money, and putting them in circulation, is a loan of its credit and not of its money. The issue of bank notes is practically borrowing from the people, and is in no proper sense banking, or the proper function of a bank. It is an ugly excrescence on the banking system and to designate the mere issue of paper as banking, or as constituting a bank, confounds all proper distinctions between cash and credit—between what is money and what is not money."—HON. H. C. BUCKNER, *of Missouri, from paper prepared for, and read at Convention of American Bankers, 1881.*

I contend that all the paper currency in use in this country should be issued by the government. The bank act was passed nearly twenty years ago, and the charter of a bank extends for twenty years. Next year the bank charters will begin to lapse. As the charters of the banks expire, I would call in their circulation, and as it is withdrawn, I would issue in place of it Treasury notes—or government notes—payable on demand by the government, in coin.* In order to induce the banks whose chartered privilege still continue to retire their circulation,

*The power of Congress to issue Treasury Notes—not legal tenders for debts between private parties—it is believed, is not now questioned in any quarter. The following authorities are given in support of it:

"The nation may continue to issue its bills (treasury notes) so far as its wants require, and the limits of its circulation will admit * * * Let banks continue, if they please, but let them discount for cash alone or on treasury notes."—THOMAS JEFFERSON.

"But if Congress has the power to regulate the currency, it was conferred to be exercised by Congress, and not to be transferred to a corporation.—ANDREW JACKSON.

"It is my impression that in the present condition of the world, a paper currency, in some form, is indispensable in commercial and financial operations of civilized and extensive communities. * * * And why should the community be compelled to give six per cent. discount for the government credit, blended with that of the bank, when the superior credit of the government can be furnished separately, without discount, to the mutual advantage of the government and the community? * * * I will be able to prove that it is within the constitutional power of Congress to use such paper in the management of its finances, according to the most rigid rules of construing the Constitution."—JOHN C. CALHOUN.

"The government ought not to delegate this power if it could. It is too great a power to give to any banking company whatever, or to any authority but the highest and most responsible which is known to our form of government."—THOMAS H. BENTON.

Rev. Dr. Spear, who added to his reputation by the earnestness and force with which he combatted the right of Congress to give the legal tender quality to government notes, in considering the right of Congress to issue treasury notes, says:

"We thus see that at different periods, prior to the Legal Tender acts, Congress has regarded the borrowing power as authorizing *the issue of treasury notes* in obtaining supplies and paying the debts of the government, while leaving the acceptance of the notes to the voluntary action of the people. * * * Whatever may have been the character of these notes, the practice of the government extending over a long period, and acquiesced in by the country, would seem to settle the question, *that Congress has the power in borrowing money to issue treasury notes* in such form and of such denomination as will make their *transfer from hand to hand convenient*. The government as a contracting and debtor party may stipulate with the receivers and holders of such notes to pay them on demand, or at a fixed time, or to fund them in interest bearing bonds, or to make them receivable for taxes or other dues to the government. Undisputed practice says that Congress has the same power to borrow money by a ten, twenty, fifty or a hundred dollar note that it has to borrow money by a thousand dollar bond, although the former may be a bill of credit, and hence the very thing in kind which the Federal Constitution refused to give Congress the express power to issue. *The Constitutional right to issue such notes is not now an open question. It has been settled by more than twenty undisputed precedents in the legislative practice of Congress.* Moreover, whether any of these issues, prior to 1862, were or were not bills of credit, there can be no doubt that those authorized by the Legal Tender acts of 1862 and 1863 are such bills in the fullest sense. Such they would have been without the legal tender property, and if they had been destitute of this property it is not probable that any question of their constitutionality would have been raised."

I would exempt the banks willing to agree to this from a tax on their deposits certainly, and from tax upon their capital, if this additional incentive should seem to be necessary. As the bank circulation was retired, either by the lapse of the bank charters, or through a waiver of chartered privileges by the banks, I would issue treasury notes in place of the bank notes—so that the volume of the paper currency should neither be increased nor diminished by the change. When this work was completed the government should undertake the work of withdrawing the greenbacks or legal tender notes now outstanding, to the end that the place of these notes should be taken and filled by the proposed treasury note, or government note, dollar for dollar, If I am asked why I recommend the withdrawal of the greenbacks, or legal tender notes, I answer: Their constitutionality is doubtful, and I would set the question at rest by withdrawing the legal tender quality from the notes issued by the government. I do not believe the legal tender quality is needed to keep the government notes at their face value when their amount is limited, and when the government stands ready to redeem its notes in coin—as it does at present, and as it should always do. Beyond the present amount of paper currency, not another paper note should be issued by the government, except in exchange for coin paid into the Treasury of the United States, and to be held there for the redemption of the notes so issued. Any person who brings gold bullion to the United States mint now can have it converted into coin money. The government should give the holder of coin, or bullion, the option of exchanging either for treasury notes, the government holding the coin, or the bullion, for the redemption of the notes issued against either. Well, what must the government or the people gain by this? The government and the people would gain all the profit there is on the issuing of the fiduciary currency of the country. We will assume that the present volume of the paper currency is seven hundred millions of dollars—including the bank notes and the greenbacks. Assuming that this amount of paper currency can be kept

at its face value by the coin reserve at present held by the United States for the redemption of the greenbacks—and I claim that this reserve is now relied on to maintain both the greenbacks and the bank notes at their face value—the government would save the interest, in this event, on very nearly six hundred millions of dollars. Assuming that it was thought desirable to increase the coin reserve to two hundred millions, the government would save the interest on \$700,000,000, and lose the interest on \$200,000,000 in real money, held for redemption purposes. If it is held that a reserve of \$200,000,000 would not be adequate, and that \$300,000,000, or even \$400,000,000 would be required, then the amount between either of these sums and the \$700,000,000 would be the amount of the loan voluntarily and most cheerfully made to the government by the people, without interest. I maintain that a reserve of \$200,000,000, as against a government note circulation of \$700,000,000, is a larger reserve than is maintained at present, and that it would be entirely adequate. But, in order to set all doubts at rest as to the adequacy of the reserve, the government should prepare and make ready for issue its own bonds for the full amount of the difference between the coin reserve it fixed upon and the government notes outstanding. These bonds need not bear interest until they were required to be sold, or issued, and then, and in this event, the paper currency would be secured precisely as at present, but the government would not, as at present, be compelled to pay interest on the bonds held as security for redemption, as it does now on the bonds which the government holds in its own vaults as security for the bank note circulation. By this change \$15,000,000 per annum, at least, would be saved to the people.

But this saving of public money, while it would be very great, would not be the chief advantage of the proposed great and enduring reform. By effecting it, we would guard our currency against arbitrary expansions and contractions. The stability and integrity of the standard of values would be secured, and this is the all-important con-

sideration. By limiting the issue of fiduciary, or substitute paper currency, and by leaving without limit the issue of representative paper currency, or paper issued against coin, to be held in the treasury, dollar for dollar, for the redemption of the notes so issued, our currency system would be placed upon a rock. The total volume of the mixed currency would have all the value, stability and flexibility of a pure coin currency, while all the convenience of a convertible paper currency would be secured, and all the profits of so much of the currency as would be fiduciary would be reserved to the government and the people—the whole people, and not to the class called bankers, as at present.

It is a financial axiom that in the absence of a substitute for money, every nation, having commercial relations with other nations, would get its distributive share of the coin money of the world. If all the paper currency in the United States were destroyed to-morrow, its place would be made good by the coin now held by other nations, to the extent needed to give us our distributive share. We would have to give wealth we now possess in return for the coin, but we would get it in time. This would come about in this way: We will suppose that our present circulation is four hundred million dollars in coin, and seven hundred million dollars in paper. The immediate effect of the destruction of the paper would be to increase nearly three-fold the purchasing power of the coin. In exact figures, as much could be purchased for four dollars as can now be obtained for eleven dollars. Flour now being five dollars and a half a barrel, could then be purchased for two dollars. Flour, in its relation to gold, being cheaper here than in any place else in the world, gold would be sent here to purchase flour, and what is true of flour being true of everything else here, gold would flow in until values here became normal, and they would become so when we had secured our distributive share of the coin money of the world, and not before.

Following this line of argument, a greenback advocate might say: Since eleven hundred millions is at present the amount of currency in use, and since four hundred millions

of it is in coin, why not issue four hundred millions more paper, dispose of our coin to other countries, and get four hundred millions' worth of something else we may need for our coin. Unquestionably, this could be done, but it would not pay to do it. For purposes of exchange and of commerce the gold we have is worth what it has cost us, or what we could get for it. It would not pay to part with it. Nor would it pay to destroy the paper and to substitute coin for it, because paper money is a convenience, and the people of commercial nations will not be content to do without it. But it is essential that the paper shall be convertible into coin on demand to keep it at its coin value, and to regulate its volume.

It is an axiom in finance that when paper currency is the only currency in use in any nation, the paper notes will pass for their face value in coin so long as the whole volume of paper in circulation is below the amount of coin which would be allotted to that nation, if there was no paper in circulation in it—that is, so long as the paper is within the distributive share of coin a nation could obtain if it choose to use only coin for currency. When paper and coin circulate on equal terms in any country—as is the case with us at present—this is conclusive proof that the paper circulation is within the limit of the coin that would be allotted to us if we had no paper. By stopping the issue of paper money just here, except in return for coin, we insure enough paper for convenience ; we secure an automatic currency, and all that will be added to the volume of our currency hereafter will be coin, and we can part with a share of it at any time, when the balance of trade is against us, with no more disturbance than takes place now when we send to any other country any thing for which our need is less than that of any other country with which we have commercial relations.

Perhaps I can illustrate the currency system, I would substitute here for that now in existence, by referring briefly to the English system, as represented in the Bank of England : The Bank of England is divided into two departments ; the issue department and the banking department proper.

They may be said to be as distinct, in some respects, as if there was no connection whatever between them. When you go to the Bank of England with coin or bullion and require bank notes in return for either, you deal with the issue department. It cannot issue a single five pound note except in return for coin or bullion, to be held in the issue department for the payment of the note so issued. If, on the other hand, you go to the Bank of England to get coin for the notes of the bank, you again deal with the issue department. The notes go to the issue department; gold is given in return for them. The notes so returned are destroyed and the transaction is closed. The banking department of the Bank of England does a purely banking business. The issue department provides the people of England with the greater part of their currency. The Bank of England's notes are, in part, a fiduciary currency—in part a currency against which coin is held dollar for dollar. The limit of the fiduciary currency was fixed under the bank act passed by Sir Robert Peel's administration, in 1844. It was ascertained at that time that, in times of the greatest stringency, distrust and panic in financial affairs, about fifteen million pounds in English bank notes were retained in circulation—that is, for this amount of notes gold had never been demanded. This minimum amount of the fiduciary currency was fixed upon as the maximum amount which the bank of England can issue. The bank has to-day say twenty-five million pounds in circulation. Against these notes the bank holds ten million pounds in gold coin or bullion. Against the fifteen million it has its credit and the credit of the government. There was, in 1844, eight million pounds in paper issued by banks other than the Bank of England. The bank act fixed this amount as the maximum, and provided that whenever the private banks, so called, chose to surrender any of their circulation, the Bank of England should exercise the right the private banks surrendered to the amount surrendered, and the Bank of England should compensate the private banks at a certain specified rate for

the note issuing privilege thus surrendered. To sum up, by the act of 1844 the fiduciary currency of England may be said to have been fixed at twenty three millions of pounds—and it remains so fixed to this day, and, nevertheless, England has passed through every financial crisis which has occurred since with less loss and with greater safety than any other country in the world.

Sir Robert Peel was advised by many of the greatest financiers of his time, to go just one step further—to limit the Bank of England absolutely to the business of banking and to make its issue department a branch of the mint—a bureau of the Treasury. He declined to do this for reasons which were largely sentimental, and which are now admitted to have been inadequate.* I propose that what Sir Robert Peel declined to do shall be done by us, and at once. Leave to the banks the business of banking, and restore to the

* Sir Robert Peel in his speech on the bank act, in explaining his motive for not adopting the policy urged upon him, said:

"Some have contended, and I am not one to deny the position, that if we had a new state of society to deal with, the wisest plan would be to claim for the State the exclusive privilege of the issue of promissory notes, as we have claimed for it the exclusive privilege of coinage. They consider the State is entitled to the whole profits to be derived from that which is the representative of coin; and that if the State had the exclusive power of issuing paper, there would be established a controlling power, which would insure, as far as possible, an equilibrium in the currency."

That Peel made a mistake is maintained by some of the ablest living writers on finance in England, among them the author of the article on "Banking," in the revised edition of the *Encyclopedia Britannica*, now going through the press. Michael Chevalier, the eminent French writer on finance, accounts for Peel's mistake in this way;

"The reason which led the Parliament of Great Britain in that year to agree to the proposition of this statesman (Peel), and abandon the idea of reserving to the government the benefit of the issue by means of the creation of a bank of issue, administered directly by the government itself, was the prejudice of the English nation for customs created by time and tradition."

Under Peel's direction, England took a long step onward, in separating the issue department from the banking department of the Bank of England, but he failed in accomplishing the radical reform he seemed personally to favor.

M. M. Chevalier, referring to the "fundamental principle," "that the power of issuing a paper currency belongs to the State, for the same reason as the coinage of specie or metallic money," asserts "that the granting of the power, without compensation, to a company of private stockholders, is in the nature of a *judicial monopoly*."

In a letter addressed to the English Chancellor of the Exchequer in 1873, H. Bowlby Wilson—a writer on finance, exceptionally well known in this country—uses the following language:

"I would observe that so long as the paper pound is convertible at pleasure into gold, it is obvious that the same principles apply to both kinds of money, and both will circulate, as it were, on the same plane or level. With these explanations, I

government the power of providing the people with their currency. I assume that the safe fiduciary limit, in this country, is now in excess of five hundred millions of dollars. The government can issue this amount of paper on its credit, and it can float at par value the seven hundred millions of paper currency now outstanding, on a coin reserve of two hundred millions. This coin reserve, under the currency system I have outlined, would be continually augmenting. The liability against it would never be increased. To say that Congress could not be entrusted with the power to control the issue department of the Treasury, is to say that it ought not to be in control of the money now in the Treasury. Control over the currency must rest in Congress. It does. The only question is whether it shall transfer its power to banking corporations, or keep it in its own hands — under the supervision of the people. I prefer that the power shall be exercised by Congress, which is only another

beg to say, the plan I have to urge on your consideration is to constitute a department of government to be called the Currency Board, and to abolish the power of the Bank of England to issue paper money.

This gentlemen, in a letter to a former Treasurer of the United States (Mr. Spinner), says of our financial system :

“The greenback currency, or treasury notes, which the banks are strenuously laboring to have suppressed, or funded into an interest bearing debt, at an annual cost to the nation of twenty million dollars, is the one redeeming feature in the American financial system.” * * * * “The whole system on which the American national banks is predicated is nothing but a gigantic fraud on the public, and a gross absurdity when brought to the touchstone of scientific reasoning.”

With all the advantage of England's experience since Peel's time, the writer of the article on “Banking,” in the revised edition of the *Encyclopedia Britannica*—uses the following weighty words :

“These are the reasons which prevail to uphold Sir Robert Peel's legislation, and which impel us to consider what means may be discovered of perfecting his policy by the unification of issues throughout the kingdom. We believe the propagation of clear ideas on the subject of the note currency, and the acceleration of the time when one currency only shall be in circulation, would both be greatly facilitated by a mechanical and local separation of the issue department from the Bank of England. Much confusion of thought still prevails by reason of the fact that the Bank of England is used as the agent for managing what is now a State issue, resting, so far as it is uncovered by specie, upon State security. If the business of issuing notes were removed bodily from the Bank of England and located in a government office, and the name of the notes at the same time changed, it could not fail to be seen that the business left behind in Threadneedle street [where the bank is located] differed in no essential particular from that of any other banker in Lombard street, and much of the superstitions regard of the city for the Bank of England, and trust in its assistance in time of trouble, would be rapidly destroyed. It would then be understood that the cry for ministerial interference at the time of crises and of incipient crises, was nothing more than a claim for the nation to cover with its credit those who had not been prudent enough to maintain adequate reserves for their own defense; and as this would be understood beforehand, it would induce the consequence of greater circumspection on the part of dealers in money, and a less temptation to rely on extraneous aid.”

way of saying that I believe the people are safer custodians of their rights and of their interests than any body, apart from the people, can possibly be.

Congress is made up of the House of Representatives, the Senate and the President of the United States. In its concrete it stands for all three. Taking it for all in all, the Congress of the United States is the most conservative body in the world, because the people, who stand back of it, and for whom Congress stands, are the most intelligent, the most law-abiding and the most conservative in the world. They are entrusted with sole power over their own rights and liberties. They can be trusted with ultimate supervision over that branch of their concerns involved in fixing and keeping fixed the measure of the value of their own property and of their own labor.





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